Tax Supported
New Issue

San Antonio, Texas

Ratings

New Issues

General Improvement and Refunding Bonds, Series 2005........ AA+
Combination Tax and Revenue Certificates of Obligation, Series 2005 .... AA+

Outstanding Debt

General Obligation Bonds .... AA+
Certificates of Obligation.................... AA+

Rating Outlook .... Stable

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See page 2 for New Issue Details.

■ Outlook

The 'AA+' rating reflects San Antonio's favorable overall economic activity and diversification, solid financial practices and adequate recent results, and very well managed direct debt position. The city's financial position has stabilized after negligible revenue growth caused substantial operating pressure on the general fund in fiscal 2002. Fiscal challenges remain for the next fiscal period but are considered manageable. The three primary sectors of the local economy are medical and health care, the military, and tourism. San Antonio has proactively addressed base realignment concerns through the ongoing redevelopment of one site and innovative measures to diminish the risk of further base closures. The Rating Outlook is Stable.

■ Rating Considerations

San Antonio is the second largest city in the state and ninth largest in the U.S., according to census information, with an estimated population of 1,282,400 for 2005. The city is located in the south central area of the state, approximately 150 miles north, as well as east, of the Mexican border and 75 miles south of Austin, the state capital. Prominent industries in the local economy are domestic and international trade, convention and tourism, military and government employment, medical and health care, financial, and telecommunications. Its proximity and cultural similarities to Mexico provide a favorable environment for international business relationships. Southwestern Bell Corp. (SBC), headquartered in San Antonio, recently announced its purchase of AT&T Corp. Although the elimination of 12,800 jobs is expected through the merger, company officials expected the number employed in San Antonio to increase due to executive relocations from New Jersey.

Stellar performance of sales tax revenues in fiscal 2004, as estimated in unaudited results, once again led to a substantial operating surplus for the general fund, contributing a projected $9.3 million to fund balance. The $162.4 million anticipated in sales tax collections will handily exceed the $142.9 million budgeted for fiscal 2004, which marks the second consecutive year that one of the three prominent city revenue sources has outperformed expectations substantially. After posting a substantial operating deficit in fiscal 2002, financial reserves initially recovered in fiscal 2003 due, in part, to a nearly $39 million increase in electric utility revenue transfers to the general fund. The record $204 million in City Public Service (CPS) transfers boosted fiscal 2003 undesignated reserves to $41.5 million, or 7.0% of expenditures and transfers out, despite a slight decline in sales tax collections for the year. These consecutive years of positive operating results have nearly restored the undesignated general fund reserves to previous levels after the substantial drawdown of $33.7 million in fiscal 2002.

New Issue Details

$112,485,000 General and $10,740,000 Combination Tax and Revenue Certificates of Obligation, Series 2005, are scheduled to sell on March 29 via negotiation to a syndicate led by First Southwest Company. Dated March 15, 2005, the general obligations (GOs) mature Feb. 1, 2006–2025 and the certificates of obligation (COs) mature Feb. 1, 2012–2025. For both series, securities maturing on and after Feb. 1, 2016 are subject to optional redemption at par plus accrued interest on Feb. 1, 2015.

Security: The GOs are payable from ad valorem taxes levied annually against all taxable property within the city up to the constitutional limit of $2.50 per $100 of taxable assessed valuation. The COs are additionally secured by a lien on and pledge of revenues from the city's municipal parks system (not to exceed $1,000).

Purpose: GO proceeds will be used to finance the construction of general improvements to the city, including street and pedestrian, drainage, library, parks and recreation, and public health and safety; and to refund debt outstanding for interest cost savings. CO proceeds will provide funds for the payment of contractual obligations to be incurred for making permanent public improvements, including fire stations, drainage, municipal utilities, park facilities, and professional services related to the construction and financing of the improvements.

A forecast fiscal 2005 operating deficit for the general fund was addressed in the budget process primarily through a favorable revenue outlook. The resurgence of sales tax collections, healthy CPS transfers, and continued tax base growth all contributed to the budget strategy. Minimal reductions and additions were also incorporated, leading to another, albeit modest, budgeted operating surplus for the year. There was no change in the city's total property tax rate. Revenue growth assumptions are on budget through the first quarter of fiscal 2005, including a projected 2.8% increase in sales taxes. On May 7, 2005, city voters will consider a proposition that would establish a limitation, or tax freeze, on the ad valorem taxes imposed on the homestead of a person who is disabled or 65 years of age or older. Should the measure be approved by voters, city officials estimate the cumulative property tax revenue loss over the next 10 years would equate to $68.1 million.

The city's finances have benefited from solid growth in its taxable assessed valuation (TAV), increasing by an average of just under 7.0% since fiscal 1999. Fiscal 2005 TAV increased by more than $2.1 billion, the majority of which ($1.2 billion) was due to new construction. The city's top 10 taxpayers account for a modest 5% of total appraised value. In an effort to spur investment in the city's southern sector, the city annexed 57 square miles on a limited purpose basis (increasing its size by almost 15%) and rezoned 4,600 properties to facilitate smart growth land use. The area includes the site of the new Toyota Tundra plant, where ground was broken on an $800 million facility in October 2003. Although the city does selectively grant property tax abatements, no such abatement was requested or granted for the Toyota facility; however, the city did provide, in tandem with the state, some short-term financial incentives and infrastructure improvements. Effective Aug. 1, 2004, the city annexed for limited purposes an additional 63.4 miles of land within the city's corporate limits.

The direct debt burden of the city is moderate. Annual general obligation (GO) bond and certificate of obligation (CO) issuance is expected to support the capital program through fiscal 2006. A GO referendum for $115 million was approved in November 2003, $48.3 million of which will remain in unissued authority. Due to the city's strong debt management plan, the debt service portion of the tax rate is not expected to require significant adjustment to accommodate borrowing through fiscal 2007. The principal payout rate for property tax-backed debt is above average at almost 69% in 10 years. The overall debt burden is considered high, primarily due to public school debt; however, adjusting for state support for school debt service mitigates these levels considerably.

The city's next property tax-supported bond issue is scheduled for fiscal 2006 in an amount of $48.3 million in GO bonds. The city will also issue airport revenue and passenger facility charge bonds this spring to complete its master facility plan at San Antonio International Airport. An offering to finance the construction of a headquarters hotel for its recently expanded convention center is also contemplated. A $60 million drainage utility revenue issue to address 11 high priority projects sold immediately preceding this issue. Additional ballot measures scheduled for May 7, 2005 include two proposals for sales tax funding of park development and aquifer protection.

Strengths

- Continued economic growth and diversification, although at a slower pace.
- Competent administrative staff and fiscal stewardship.
- Moderate and very well managed direct debt position, with affordable future borrowing plans.

Risks

- Service delivery pressures and spending requirements associated with growth.
- Uncertain long-term ability of city-owned electric utility to continue payments to the general fund due to industry deregulation.
- Challenge of securing long-term water supplies, although a funding mechanism is now in place.

Debt

The city's direct debt profile positions it extremely well to accommodate borrowing needs over the next few years. In November 2003, voters approved five GO bond propositions totaling $115 million. Debt proceeds will be used to fund street and pedestrian ($29 million), drainage ($19 million), library ($4 million), parks and recreation ($27 million), and public health and safety ($35 million) improvements. Combined with approximately $46 million in CO financing, the new authorization is expected to address the city's capital needs through fiscal 2006 with minimal impact on the property tax rate.

Through its multiyear debt management model, which utilizes very conservative assumptions for TAV growth and property tax collections, the maximum property tax rate requirement for this capital program is projected to be $0.2275 per $100 of TAV in fiscal 2011. The current interest and sinking fund rate is $0.2115 per $100 of TAV. Only 0.5% annual growth in existing appraised values and 1.0% annual growth in new improvements are considered in the financial model, which is well below the 7.0% TAV annual growth since fiscal 1999. Also considered in the model are annexations, including last year's limited purpose annexation of 57 square miles just to the south of the city, including the site of the Toyota project.

Amortization of property tax-supported debt is very rapid with nearly 69% retired in 10 years, and debt service payments represent an above-average 16% of combined general and debt service fund expenditures. The city's GO and CO debt has an average life of just less than eight years at a reported effective interest rate of 4.6%. Also, the debt service fund balance for fiscal 2005 is projected to end with nearly $51.7 million in reserve, which represents almost 50% of debt service expenditures for the year. City staff continually monitors its debt portfolio for refunding and defeasance opportunities. The debt service fund balance is anticipated to be reduced gradually to about $30 million.

The direct debt burden is moderate at $898 per capita and 2.4% of TAV. Eliminating hotel occupancy tax-supported debt from direct debt results in ratios of $735 and 2%, respectively.

The overall debt burden is moderate on a per capita basis at $2,751 and high as a ratio of TAV at 7.6%. The majority of overlapping debt is for area public schools. However, incorporating state support for school district debt service adjusts levels to $2,026 and 5.6%, respectively.

Debt Statistics

($000)

This Issuance:	
General Improvement Bonds	122,485
Combination Tax and Revenue COs	10,740
Taxable General Improvement Refunding Bonds	
Outstanding Debt:	
General Improvement Bonds	658,886
Certificates of Obligation	209,205
Sales Tax Commercial Paper Notes	
Hotel Occupancy Tax Bonds	208,712
Municipal Property Corp. Lease Revenue	12,870
Starbright Industrial Development Corp. Bonds	24,685
Capital Leases	10,535
Total Direct Debt	1,258,118
Less: Self-Supporting Debt	14,137
Less: Refunding	92,930
Net Direct Debt	1,151,051
Total Overlapping Debt*	1,447,471
Overall Net Debt	2,598,522
Debt Ratios	
Net Direct Debt per Capita ($)**	898
As % of Taxable Assessed Valuation†	2.5
Overall Net Debt per Capita ($)**	2,026
As % of Taxable Assessed Valuation†	5.6

*Adjusted to reflect state support for local school district debt. **Population: 1,282,400 (2005 estimate). †Taxable assessed valuation: $46,707,941,513 (fiscal 2005). COs – Certificates of obligation.

Finances

The city's financial position has substantially recovered after flat revenue collection caused substantial operating pressure on the city's general fund in fiscal 2002. Declining by just over

General Fund Financial Summary
($000, Audited Fiscal Years Ended Sept. 30)

	2000	2001	2002	2003	2004*
Revenues	511,369	543,445	545,853	596,151	612,336
Expenditures	457,510	501,547	517,454	521,696	541,854
Net Change	53,859	41,898	28,399	74,455	70,481
Transfers In	16,325	19,043	11,198	13,121	15,348
Transfers Out	(61,575)	(70,445)	(73,343)	(68,386)	(76,441)
Net Income	8,609	(9,504)	(33,746)	19,190	9,389
Total Fund Balance	93,415	96,198	62,452	81,642	96,686
As % of Expenditures and Transfers Out	17.9	16.8	10.6	13.8	15.6
Unreserved Fund Balance	80,993	86,658	53,658	74,410	–
As % of Expenditures and Transfers Out	15.6	15.2	9.1	12.6	–
Undesignated Fund Balance	50,306	49,347	19,797	41,484	–
As % of Expenditures and Transfers Out	9.7	8.6	3.4	7.0	–

*Unaudited.

$29.5 million, undesignated reserves fell to 3.4% of expenditures and transfers out during this fiscal period. This followed an operating deficit of $9.5 million recorded in fiscal 2001. Revenue volatility in the form of CPS transfers and sales taxes were the primary reasons behind the operating deficits, creating imbalances with expenditures. However, an upswing in these revenue resources and the steady growth in property tax revenues are the drivers behind the recovery and replenishment of reserves.

Although property tax revenues increased by $13.8 million, or 10.9%, in fiscal 2002, payments from CPS declined precipitously by $17.3 million from the fiscal 2001 amount, offsetting all other revenue increases. A major component of the city's general fund revenues, CPS annually transfers 14% of its gross revenues for general operations. The exceptionally hot summer of 2001, causing high electricity usage for air conditioning, and a spike in natural gas prices for heating both led to higher utility revenues, while the temperate summer of 2002 did not produce the conservatively budgeted revenues. Fitch recently affirmed its 'AA+' rating on the utility system debt of CPS.

Conversely, a nearly $39.0 million increase in CPS transfers in fiscal 2003 enabled the city's financial reserves to rebound substantially. Due to a record $204.0 million in CPS transfers, fiscal 2003 undesignated reserves increased to $41.5 million, or 7.0% of expenditures and transfers out. The addition of the $23.2 million reserve for revenue loss increases the city's fund balance cushion to $64.7 million, or 10.9%. Despite sales tax receipts that were 6% less than budgeted, fiscal 2003 operating results nearly restored the reserves to previous levels after the substantial drawdown in fiscal 2002. CPS gross revenues spiked during this period due to rising fuel costs exacerbated by a four-month repair of one reactor at the South Texas Nuclear Project, part of which is owned by CPS.

In a similar fashion, sales tax collections have shown some minor fluctuation, although, with the exception of fiscal 2003, registering modest growth annually. However, unaudited fiscal 2004 figures demonstrated robust levels as compared with the prior year. A 16.9% increase in collections led to another operating surplus, which was nearly $9.4 million. For the fiscal 2005 budget, a conservative level of $150.6 million was projected, which equates to a 5.4% increase over the level budgeted for fiscal 2004. The fiscal 2005 budgeted level is a 7.3% decline from the $162.4 million in collections anticipated for fiscal 2004.

Using certain assumptions, city officials initially identified a $21.3 million budget gap for fiscal 2005; however, a combination of additional revenues, expenditure reductions, and redirections enabled the addition of a few program improvements and the adoption of a balanced budget funded with no change to the city's total property tax rate of $0.579 per $100 of TAV. CPS transfers are conservatively projected at $189.5 million, nearly identical to the unaudited fiscal 2004 level. The budget provided for contractually required pay increases for uniform police, fire, and emergency medical personnel, as well as a market salary adjustment and performance pay incentives for eligible civilian employees. The general fund is estimated to have an unreserved fund balance of $30.5 million, which is in addition to the $23.2 million reserve for revenue loss. The city has a financial goal of setting aside 5% of general fund appropriations for this reserve.

Growth Indicators
(Fiscal Years Ending Sept. 30)

Fiscal Year	TAV ($000)	% Change	Sales Taxes ($000)	% Change
1995	24,309,875	—	97,667	—
1996	26,793,725	10.2	103,033	5.5
1997	28,320,799	5.7	110,034	6.8
1998	29,422,285	3.9	118,992	8.1
1999	31,253,551	6.2	126,473	6.3
2000	33,315,479	6.6	133,816	5.8
2001	36,033,321	8.2	136,811	2.2
2002	39,587,584	9.9	140,084	2.4
2003	41,535,547	4.9	138,962	(0.8)
2004	44,536,796	7.2	162,384**	16.9
2005	46,707,942	4.8	150,600*	(7.3)

*Budgeted amount. TAV – Taxable assessed valuation.
**Unaudited.

Revenue growth assumptions are on budget through the first quarter of fiscal 2005, including the projected increase in sales taxes. For the fiscal 2005 budget, property tax, sales tax, and CPS payments constitute 75.3% of general fund revenues. The city continues to receive 14% of CPS revenues. While CPS is no longer as dominant a revenue source for the general fund as in prior years, it remains the largest at 28.2%. Of expenditures, public safety, consisting of police, fire, and emergency medical services, consumes 59.1% of available general fund resources.

■ Economy

Health care and bioscience, hospitality, and government employment, including the military, are the leading sectors of the local economy. The health care and bioscience industry is the largest segment for the city. With an estimated $11.1 billion economic impact in 2001, health care provided 14% of all jobs in the San Antonio area and employed more than 98,000, with an annual payroll of nearly $3.5 billion. The major components of this sector include the 900-acre South Texas Medical Center, with 10 major hospitals and the University of Texas Health Science Center at San Antonio; military health care, consisting of three major military hospitals; and biomedical research and development, including the Texas Research Park.

The hospitality industry, consisting of conventions and tourism, is a significant component of the city's economy, with an estimated annual economic impact of $7.2 billion and more than 86,000 employees. During 2002, San Antonio attracted nearly 20 million visitors, which resulted in direct spending of $4.8 billion in the city. To capture larger conventions, the convention center has undergone significant expansion and renovation. The project has been completed, giving the center 400,000 square feet of contiguous space. Plans are currently underway for the establishment of a convention center headquarters hotel. To address downtown parking needs for the hotel, the city parking system expanded the parking facility at the convention center. Additionally, to support both the commerce and visitor industries, the municipal airport completed a reengineering study and master plan in 1998 to implement cost efficiencies, enhance service delivery, and undertake terminal and gate expansion and airfield improvement projects within 10 years through a capital plan totaling $425.6 million.

Another principal component of the local economy is the military, whose presence is represented by Lackland Air Force Base (AFB), Randolph AFB, and Fort Sam Houston U.S. Army Base. The property of a fourth installation, Brooks AFB, was transferred to the city as part of the Brooks-City Base Project, which is designed to lessen the operating costs of facility maintenance for the Air Force, thereby potentially reducing the possibility of base closure in the next round of deliberations scheduled for 2005.

The Air Logistics Center at Kelly AFB was closed in July 2001, which led to the establishment of the Greater Kelly Development Authority (GKDA). The goal of the GKDA is to create 21,000 jobs by 2006 at KellyUSA, the new business and industrial park, including the 12,000 lost as a result of realignment. To date, the GKDA has successfully leased 96% of 8.9 million square feet of space through the execution of 73 leases and attracted numerous companies, including Boeing Co., Lockheed Martin Corp., Chromalloy Gas Turbine Corporation, Standard Aero, General Dynamics, General Electric Co., and Pratt & Whitney. An additional 2.4 million square feet of space has been leased back to the Air Force for its continued needs. These efforts have retained 7,400 military personnel and created more than 12,721 jobs at KellyUSA through its tenants. The next phases of development at KellyUSA will focus on establishing a port to serve international cargo, rail accessibility for inland port distribution, and expanding aviation maintenance, repair, and overhaul operations. Fort Sam Houston will benefit from the relocation of the U.S. Army South from Puerto Rico, bringing approximately 500 new jobs with an annual economic impact of $200 million.

San Antonio and the surrounding area have been faring well from an employment standpoint. The latest unemployment figures available, January 2005, equal unemployment rates of 5.7% for city residents and 5.9% for Bexar County. The corresponding rates for the state and nation are 6.2% and 5.7%, respectively. The civilian labor force has been growing modestly at about 1.2% annually over the past three years, while employment growth has averaged about 1.5% annually for the same period.

STANDARD & POOR'S PUBLIC FINANCE

Publication date: 23-Mar-2005
Reprinted from RatingsDirect

City of San Antonio, Texas

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Credit Profile
US$10.74 mil Combination Tax and Revenue Certificates of Obligation, Series 2005 dtd 03/15/2005 due 02/01/2025
AA+
Sale date: 29-MAR-2005

US$122.485 mil GO Improvement and Refunding Bonds, Series 2005 dtd 03/15/2005 due 02/01/2025
AA+
Sale date: 29-MAR-2005

AFFIRMED
Outstanding GO Bonds, Various Series
AA+

Outstanding GO Bonds, Various Series
AAA / AA+ (SPUR)

OUTLOOK:
STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating, and stable outlook, to San Antonio, Texas' series 2005 GO improvement and refunding bonds and series 2005 combination tax and revenue certificates of obligation.

The rating reflects the city's:

- Continued strong economy,
- Strong management with a comprehensive long-term capital program, and
- Strong financial performance and position.

A high debt burden, albeit with manageable capital needs, is an offsetting credit factor.

The city's full faith and credit pledge secures the bonds and certificates.

San Antonio, with about 1.2 million residents, is Bexar County's seat and the nation's ninth-largest city. San Antonio's designation as the site for a new Toyota Motor Corp. truck manufacturing facility, which is scheduled to be complete by the end of 2005, has brought substantial growth to the south portion of the San Antonio MSA. The plant should generate about 2,100 jobs and a total capital investment of roughly $800 million from Toyota. Assessed valuation (AV) growth remained strong in fiscal 2005, increasing by 4.9% over fiscal 2004 AV; total AV is now nearly $47 billion. The residential and services and trade sectors continue to experience the strongest growth. The medical and biomedical industries, which, as a whole, contributed an estimated $11.9 billion to the area in 2003, now account for the largest part of the city's economy. Expansions continue at South Texas Medical Center, which is the city's leading employer with nearly 29,000 employees. San Antonio's unemployment, which has decreased to about 5.3%, remains below state and national levels. San Antonio's management policies and controls are very strong and include a comprehensive long-term capital program and several transparency and accountability initiatives.

Following a fiscal 2002 deficit that reduced the general fund balance to $55.0 million, San Antonio's financial performance significantly improved in fiscal 2003 with a $19.2 million operating surplus that restored the general fund balance to $81.6 million, or 14.2% of expenditures. Fiscal 2004 unaudited figures reflect a $15.0 million surplus, which would increase the general fund balance to $96.6 million, or about 17% of expenditures. The city's fiscal 2005 budget is balanced. The city continues to substantially exceed its goal of maintaining at least 5% of expenditures in the general fund, and management's dedication of $23 million of general fund reserves in case of potential revenue declines provides additional flexibility; these reserve funds did not decline during fiscal 2004.

Overall net debt is high at roughly $3,147 per capita and nearly 8.5% of market value. To some extent, these figures are elevated because they include the city's overlapping debt, which is substantially comprised of school district debt that receives significant support for debt service payments from the state's instructional facilities allotment program. In November 2003, the electorate approved a $115 million bond package to finance improvements to the city's street and drainage infrastructure and library system, parks and recreation facilities, and public health and safety facilities. This issuance is the second installment of that authorization. Officials will use part of the proceeds from this issuance to finance improvements to street and drainage infrastructure and parks and public safety infrastructure. Officials plan to issue the remaining $46 million of authorized bonds over the next two years.

Outlook

The stable outlook reflects the expectation that the city will maintain its solid financial performance and high general fund reserve levels and that the property tax base will continue to expand at a healthy rate, allowing the city to develop its capital program while maintaining a manageable debt burden.

Economy

San Antonio is in south-central Texas, about 75 miles south of Austin, Texas and 150 miles north of the Mexican border. According to U.S. Census estimates for 2003, San Antonio is the nation's ninth-largest city and the state's third-largest city. Although military and tourism have long been the driving forces in the city's economy, medical and biomedical companies are now the leading force, contributing an estimated $11.9 billion to the area's economy. The city has worked hard to build this component of its economy, which is evidenced by South Texas Medical Center's status as its leading employer. In all, the medical and biomedical fields account for nearly 106,000 jobs, or about 13% of total city employment. Employment growth in the city remained steady during 2004 with about 2,600 jobs added during the year, which was up by nearly 1% from the previous year. Although wealth levels remain slightly below the national average, they have consistently increased at a faster rate than national levels. Growth in median household effective buying income from 1998-2003 reached 9.4% compared with the state's 4.5% and the nation's 1.1%. Therefore, median household effective buying income is now at 97% of the nation's average, up from 89% in 1998. To support this upward trend in income growth, management has focused its economic development efforts to attracting industries in the biotechnology and health care, aerospace, telecommunications, IT, logistics and transportation, tourism, and automotive manufacturing sectors. City officials estimate that total employment in these targeted industries will be nearly 275,000.

San Antonio's property tax base is diversified: The 10 leading property taxpayers account for about 5% of total AV. H.E. Butt Grocery Co., the leading taxpayer, accounts for just 1.2% of total AV. Tourism and convention traffic remain strong. Hotel room nights have increased by a cumulative 12% over the past five years.

San Antonio's access to Mexico promotes strong international trade and tourism, creating further economic diversity. Government, specifically the military, remains a large component of the economy with five military bases in the city. Although Kelly Air Force Base officially closed as a military installation in July 2001, city officials have worked at privatizing the base to prevent job losses. To date, 7,400 military jobs have been retained and 5,200 private sector jobs have been created. The city's goal is to create 21,000 jobs at the Kelly installation by 2006, which would more than offset the estimated 12,000 jobs lost due to the base closing. Boeing Co. and Lockheed Martin Corp. are the leading employers at the Kelly installation, and management expects the two companies to spur further privatization and allow the retention of several aircraft repair operations. Total capital investment in this project has reached $191 million: $172 million of which has come from private investors. Subsequent phases of the Kelly-USA initiative include the development of a Class A business park with rail, air, and highway access for an estimated investment of $364 million in capital projects. City officials expect this second phase of development to generate an additional 6,400 jobs and increase Kelly's economic effect on the local economy to $4.3 billion annually.

Similarly, San Antonio is working with Brooks Air Force Base to retain jobs there should future base closures be considered nationally. In July 2002, Brooks Air Force Base transferred ownership of all its land to the city. Part of the city's involvement includes the development of Brooks Technology & Business Park, where the U.S. Air Force will be the city's major tenant; city officials are also planning the development of additional health services and biotechnology companies. Brooks City-Base is the only project of its kind in the nation. In summer 2003, University of Texas at San Antonio opened a bioprocessing training center at Brooks City-Base. In addition, Brooks City-Base already has lease agreements with nine tenants; and the facility has also been designated as a center for homeland security and city and county emergency operations.

In September 2003, the U.S. Army designated Fort Sam Houston in San Antonio as the new location for the U.S. Army's Southern Command Center, creating about 500 jobs and an annual economic effect of roughly $200 million. In light of the upcoming base realignment and closure round scheduled for 2005, city officials have established a task force to implement a strategy to avoid base closures.

San Antonio won its bid for a new Toyota truck plant to be built on land south of the downtown area. Toyota management has scheduled the plant to go on-line at the end of 2005. The city's economy will benefit from various aspects of the project, including roughly $800 million of capital investment from Toyota. City management expects this project to create about 2,100 construction jobs. Toyota's management is forecasting the plant, once at full operation, will produce 150,000 units of its Tundra pickup truck annually. City officials expect the project to create about 2,000 manufacturing jobs and an additional 5,300 spin-off jobs in the area. The city recently issued contract revenue bonds through Starbright Industrial Development Corp. to finance land acquisition and fund other costs associated with the project; San Antonio will pay debt service on the bonds solely through revenues the city pledges from the funds it receives from city public services. City management will create a three-year limited-purpose district for the site with the expectation that the district will annex this land at the end of that period. The city is also planning a new site for Texas A&M University as part of its southside initiative.

To encourage the redevelopment of inner-city neighborhoods, San Antonio officials have implemented eight neighborhood commercial revitalization programs that have attracted an estimated $54 million of private investment and 1,741 new jobs.

Finances

San Antonio's financial performance remains strong. In fiscal 2003, officials reported an ample $19.2 million surplus, which restored, in part, a $33.9 million decrease in the unreserved general fund balance from fiscal 2002. The city's $74.4 million unreserved general fund balance accounted for a healthy 13% of operating expenditures, which substantially exceeded management's goal of maintaining at least 5% of expenditures in the fund, at fiscal year-end 2003. A significant 23% increase, or $38.9 million, in city public service payments to San Antonio accounted for much of the city's fiscal 2003 revenue growth. In addition, cost-containment measures provided city officials with the additional flexibility to achieve a year-end operating surplus. Fiscal 2004 unaudited figures reflect a $15.0 million surplus, which would increase the general fund balance to $96.6 million, or about 17% of expenditures. Early projections for fiscal 2005 indicated a $23.1 million general fund shortfall. The fiscal 2005 budget, however, eliminates this projected shortfall through a combination of revenue enhancements and expenditure controls, resulting in an overall balanced budget.

The general fund continues to rely on city public service revenues, which account for about 30% of total general fund revenues. While city public services have moved into a deregulated environment, its favorable and competitive position limits or mitigates concerns. The city's fiscal 2003 sales tax revenues were slightly below the fiscal 2002 level. Fiscal 2004 unaudited sales tax revenues reflect a significant 5.8% increase in sales tax collections.

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280.